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RUEHIL/AMEMBASSY ISLAMABAD 6095  
RUEHKT/AMEMBASSY KATHMANDU 4130  
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UNCLAS SECTION 01 OF 02 COLOMBO 000819

SIPDIS

STATE FOR EB AND SA/INS; MCC FOR D.NASSIRY AND E.BURKE

USDOC FOR EROL YESIN

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SUBJECT: Electricity strike could delay reforms

Ref: 05 Colombo 1901

¶1. (U) Summary: Unions affiliated with the Marxist-Nationalist Janatha Vimukthi Peramuna (JVP) party have warned of a strike and country-wide blackout on May 23 in protest of government moves to present electricity reforms to Parliament, which they fear would lead to privatization of the state electrical utility. However, the strike may be ineffective (i.e. unable to produce a blackout or force the Government of Sri Lanka (GSL) to give in to union demands) as technical staff, including engineers, will not be joining the protest. Nonetheless, the government may delay the presentation of the reform bills in Parliament to give time for discussions which would appease technical unions, which want more time to study the bills. This is a first, albeit small, test of this Government's willingness to stand up for needed reforms in the power and energy sector. End Summary.

¶2. (U) The government is planning to present two bills to the parliament to implement electricity sector reforms agreed in 2005 (reftel) after protracted discussions between the government and the unions. The amendments to the Ceylon Electricity Board Act and the Electricity Reform Act would allow the state-owned power utility, Ceylon Electricity Board (CEB), to be reconstituted as a holding company and establish six subsidiary companies to take over the current generation, transmission and distribution functions of the CEB. The CEB would fully own these subsidiary companies.

¶3. (U) The JVP-aligned unions do not support any reforms and did not approve the 2005 reform package. The JVP fears these reforms will lead to the eventual privatization of the CEB. The JVP union in the CEB has threatened to stop work on May 23 and has warned of a countrywide power outage unless the bills are withdrawn.

¶4. (SBU) The JVP trade union action is unlikely to be effective. The powerful engineers union of the CEB will not be joining the strike. Ananda Piyatilake, President of the engineer's union, told EconFSN that their union has given consent to the reforms, but is urging the government not to rush the legislation through parliament. The engineer's union wants time to study the legislation to see if it complies with reforms agreed to last year. (Note: The draft legislation was made available to the public only recently and not in sufficient numbers - the government publication sales office received just 15 copies which sold out immediately. End note.) According to Piyatilake, the JVP strike will not be effective because engineers and

technical staff would not participate. The JVP union has membership among clerical and other non-technical staff of the CEB. While the JVP union has threatened to bring workers at the government-owned Ceylon Petroleum Corporation (CPC) into the strike, several union representatives at the CPC told EconFSN that they are not likely to join in a strike, although they want to show their cooperation, possibly through limited action walkout protests or the like.

¶5. (U) Meanwhile, CPC unions are holding separate discussions with the Government regarding CPC reforms. The unions are urging the government to take action to return to the CPC the 33 percent of total CPC shares held by the Treasury. CPC unions also fear eventual privatization of these shares.

¶6. (U) According to Mr. M.M.C. Ferdinando, Secretary, Ministry of Power and Energy, the government is determined to go ahead with the reforms. Speaking at a recent energy managers meeting organized by the PUC, he suggested that the government may refer the bills to a parliamentary consultative committee without directly presenting them to Parliament on May 23 as planned. According to Ferdinando, this decision may delay the parliamentary presentation to early June. It is not clear if this move would be taken due to JVP protests or due to complaints of inadequate time for consideration of the bills.

¶7. (SBU) Comment: Recently, the government has shown signs of moving reforms ahead in the electricity and energy sectors; the most important being the decision to procure a much delayed and much needed coal power plant. Last week,

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the President laid the foundation stone for a 300MW coal power plant, which will be built by the Chinese under a long-term concessionary loan. In April 2006 the government increased fuel prices, for the first time since June 2005, and is reportedly likely to do so again in the coming days. This may partially reduce government subsidies of fuel (though a recent analysis suggested that, with oil topping USD 70 per barrel, the Government may spend close to USD 2 billion on fuel subsidies in 2006). The GSL's response to threats by the unions and decisions made surrounding the potential strike could be a harbinger of whether this government will stand for reform or cave in to union pressure on a variety of matters.

ENTWISTLE